

APPENDIX A

**Summaries of the
IID/SDCWA Water Transfer Agreement and
Quantification Settlement Agreement (QSA)**

Summary of IID/SDCWA Transfer Agreement

SUMMARY OF
IID/SDCWA TRANSFER AGREEMENT
[Revised as of 12/18/01]

The following summarizes the terms of the 1998 Agreement for Transfer of Conserved Water between IID and SDCWA, as amended by the First, Second and Third Amendments thereto (collectively, IID/SDCWA Transfer Agreement or Agreement). The Agreement, complete with 11 exhibits, addresses the following subjects: conditions, transfer mechanism, quantity, limit on IID's diversions, term and renewal, pricing, and shortage sharing.

1. Conditions.

Four major conditions must be satisfied before the Agreement becomes effective:

1.1. Environmental Review. First, environmental review must be completed. IID is designated as the Lead Agency for environmental compliance under CEQA. IID intends to work in close coordination with the federal lead agency designated for purposes of compliance under NEPA. Article 9 of the Agreement requires IID and SDCWA to complete the environmental review and assessment required by CEQA and NEPA. The transfer of conserved water to SDCWA is expressly contingent upon a determination by IID and SDCWA to proceed with implementation of the activities described in the Agreement, which determination will be made only after completion of such environmental assessment and incorporation of any project alternatives and/or mitigation measures which those agencies consider appropriate or which are legally required by any other state or federal agency. IID is responsible for the mitigation of any environmental impacts of water conservation efforts within Imperial County (excluding the Colorado River between Imperial Dam and the northern county border) and upon the Salton Sea, except that IID has the right to terminate the Agreement in lieu of implementing such mitigation measures if the present value of projected mitigation expenditures might exceed \$15 million at the time of completion of environmental review. Once water transfers commence, if the present value of the cost of original mitigation obligations and unanticipated environmental consequences combined exceeds \$30 million, IID may void the Agreement and terminate any further transfer of conserved water. SDCWA is responsible for the mitigation of any environmental impacts on the Colorado River between Imperial Dam and Lake Havasu resulting from the transportation of the conserved water from Imperial Dam to SDCWA and any impacts in San Diego County. SDCWA has the right to terminate the Agreement in lieu of implementing such mitigation measures if the estimated mitigation costs exceed \$1 million at the time of completion of environmental review or \$2 million after transfers commence. Each party has a right, but no obligation, to contribute money to pay the other party's costs that exceed the specified limits, in which case the Agreement would not be terminated.

1.2. Wheeling Arrangements. Second, SDCWA must obtain, from MWD or otherwise, the ability to wheel the conserved water through MWD's Colorado River Aqueduct (CRA) to San Diego County. The Agreement specifies a formula for the base wheeling rate based on the amortized capital costs, O&M, replacement costs, and net power costs for the CRA facilities actually used to convey the water. The Agreement also provides that SDCWA pay a "supplemental wheeling rate" to MWD when the wheeling of the conserved water would prevent

MWD from diverting all the flood control releases available to MWD pursuant to the reservoir operating criteria specified in the 1984 Field Working Agreement between the U.S. Army Corps of Engineers and Reclamation. The supplemental wheeling rate may not exceed \$60 per AF. If the wheeling condition is not satisfied, either party may void the Agreement. As with the environmental condition, both parties have a right, but no obligation, to contribute money to pay the other party's share of wheeling costs that exceed the limits, in which case the Agreement would not be terminated.

1.3. Approval by SWRCB and Reclamation. Third, the Agreement must receive necessary approvals from the State Water Resources Control Board (SWRCB) and the Bureau of Reclamation (Reclamation). SWRCB's approval must include findings that: (1) California Water Code §§ 1011, 1012 and 1013 apply to and govern the transfer; (2) the conserved water retains the same priority as if it were diverted and used by IID; (3) IID's water rights are unaffected by the transfer; (4) the transfer is in furtherance of earlier SWRCB decisions and orders concerning IID's reasonable and beneficial water use and of Article X, § 2 of the California Constitution and California Water Code §§ 100 and 109; (5) the water conservation will be verified by IID reducing its diversions from the Colorado River in the amount of conserved water transferred, and (6) junior right holders will be protected by forbearance by IID under its Priority 3 Colorado River water right from diverting in excess of 3.1 MAFY during the term of the Agreement. Reclamation approval must find: (1) the transfer is consistent with federal law; (2) Reclamation will account for the conserved water under the decree as part of IID's net diversions under IID's priority for use of Colorado River water; (3) IID's water rights are unaffected by the transfer; (4) recognition of the SWRCB findings concerning IID's reasonable and beneficial use of water and SWRCB verification of conserved water, which includes forbearance by IID of its Priority 3 Colorado River water right at 3.1 MAFY during the term of the Agreement; and (5) diversion of the conserved water by SDCWA at Lake Havasu is permissible.

1.4. Landowner Subscription. Fourth, within 18 months of April 29, 1998, IID must enter into conditional subscriptions of interest with landowners desirous of participating in on-farm conservation expressly conditioned on IID's compliance with environmental laws pursuant to Article 9 of the Agreement. Within 120 days of IID's certification of the EIR, participating landowners must enter into contracts which commit the landowners to collectively conserve at least 130,000 AFY. The Agreement specifically provides that the contracts with participating landowners will prohibit fallowing as a water conservation method.

2. Transfer Mechanism.

Subject to the terms and conditions of the Agreement, IID may undertake and agrees to contract with landowners to undertake water conservation efforts and divert less Colorado River water by an amount equal to the conserved water created. The transfer occurs by IID leaving water in the river in the amount of conserved water created for SDCWA to divert and deliver to its service area. SDCWA pays IID for the quantity of water so transferred.

3. Quantity.

Water will be conserved and transferred pursuant to Water Code §§ 1011 and 1012 . The conserved water will retain the senior priority of the IID's water rights. There are two transfer schedules: the primary transfer and a discretionary additional transfer. The primary transfer quantity will commence only after the satisfaction of all four conditions discussed above. The quantity transferred in the first year will be 20,000 AFY, increasing each year by 20,000 AF until a "stabilized primary quantity" (e.g., maximum annual primary transfer) is reached. That quantity is between 130,000 AFY and 200,000 AFY, as determined by the IID in its complete discretion.

A discretionary additional transfer of up to 100,000 AFY may occur, but no sooner than the start of the 11th year after transfers commence. The quantity of the discretionary additional transfer is conditioned by a determination of availability by IID and a determination of need by SDCWA. The discretionary additional transfer is subject to the right of IID to transfer the additional discretionary amount to settle disputes with MWD or Coachella Valley Water District (CVWD). IID may enter into agreements with CVWD on any terms and conditions acceptable to IID, provided CVWD covenants not to transfer the water received, directly or indirectly, for use outside CVWD's jurisdictional boundaries. IID may enter into agreements with MWD, provided that either: (1) MWD permanently waives all existing legal disputes related to the approval conditions under the Agreement, or (2) MWD pays a price equal to or greater than the price SDCWA pays during the same year. The amount of discretionary additional water potentially available to SDCWA is up to 100,000 AFY, less any amount transferred to MWD or CVWD.

During the period of the potential availability of discretionary additional transfers, IID and SDCWA have a mutual right of first refusal. IID has an exclusion for transfers to MWD and CVWD. SDCWA has an exclusion for purchases from MWD and for transfers with other third parties for water quality purposes and drought transactions. The Agreement includes a number of specific criteria for these transactions and limits on the quantity and duration of such transactions.

If the proposed Quantification Settlement Agreement (QSA) among IID, MWD and CVWD is approved and fully implemented, SDCWA would be limited to the primary amount (up to 200 KAFY) of conserved water, and CVWD and/or MWD would have the option to acquire the discretionary amount (up to 100 KAFY) pursuant to the terms of the QSA. Also, after negotiation of the QSA, IID and SDCWA amended the Agreement to provide for the early transfer of an additional 10,000 AF (Early Transfer Water), contingent upon satisfaction of all conditions precedent and implementation of the QSA. The Early Transfer Water will be made available to SDCWA at Imperial Dam in the following increments: 2,500 AF in 2002, 5,000 AF in 2003, and 2,500 AF in 2004. There is no restriction on fallowing or requirement for landowner subscriptions in connection with the Early Transfer Water.

4. Limit on IID's Diversions.

IID's reduced diversions at Imperial Dam (less return flows), for each calendar year during the term of the Agreement, will be measured by subtracting from 3.1 MAF the sum of

[IID's actual diversions (less return flows) during that year under its Priority 3 water right plus the amount of water transferred to MWD under the 1988 IID/MWD Agreement] and disregarding IID's actual diversions (less return flows) during that year, if any, under its Priority 6 or 7 water right. To assist the administration of diversions on the Colorado River and insulate junior right holders from any possible impact during the term of the Agreement, IID will forbear under its Priority 3 water right from diverting (less return flows) in excess of 3.1 MAFY and from diverting (less return flows) in excess of ninety percent (90%) of the water available under its Priority 6 and 7 water right.

5. **Term And Renewal.**

The Agreement has an initial term of 45 years. Subject to a material change provision concerning the continued ability and terms for the cost of conveying the conserved water through the CRA, each party has a unilateral option to renew the Agreement for a renewal term of 30 years. At the renewal, IID may recapture up to 34,000 AFY, provided that the 1988 IID/MWD Agreement has expired or terminated. The Agreement also includes a meet and confer obligation for the parties to negotiate a potential extension of the Agreement after the end of the renewal term on any terms and conditions acceptable to the parties. At termination of the Agreement, SDCWA has no claim to any further conserved water.

6. **Pricing.**

The Agreement has three pricing provisions: base contract price, shortage premium, and price redetermination. The pricing under the Agreement starts with the base contract price and shortage premium.

6.1. Base Contract Price. The base contract price is determined by a series of formulae which depend on actual MWD rates and charges, the concept of a "base wheeling rate", and the actual wheeling rate for conveying the conserved water through MWD's CRA to San Diego:

$\text{Base Contract Price} = (\text{MWD Full Water Rate} - \text{Base Wheeling Rate}) \times (1 - \text{Discount}) + 50\% (\text{Base Wheeling Rate} - \text{Actual Wheeling Rate})$

The formula for the MWD Full Water Rate is:

$$\begin{aligned} \text{MWD Full Water Rate} = & \text{MWD Rate for untreated noninterruptible water service} + \\ & \text{per acre-foot valuation of other MWD rates and charges that vary} \\ & \text{with volume} + \\ & \text{other MWD rates and charges that do not vary with volume/4-year} \\ & \text{running average of the Authority purchases from MWD and IID} \end{aligned}$$

Certain MWD charges are excluded from the MWD Full Water Rate, including currently assessed property taxes.

The actual wheeling rate equals the base wheeling rate plus a "supplemental wheeling rate" specified in the transportation conditions of the Agreement. The discount starts at 25% in the first year, declines to 15% by the 10th year, and declines to its long-term value of 5 % by the 17th year. Here are some sample calculations of the base contract price when the supplemental wheeling rate is not paid:

<i>Assumptions of Sample Calculation</i>	<i>Base Contract Price</i>
Year 1: initial projections of Full MWD Water Rate (\$400/AF) and Base Wheeling Rate (\$68.50/AF)	\$249/AF
Year 10:	
initial projections of full water and base wheeling rates	\$282/AF
\$10/AF increase in base wheeling rate	\$273/AF
\$10/AF increase in MWD untreated water rate	\$290/AF

In years when SDCWA pays the "supplemental wheeling rate," the base contract price declines by 50% of the supplemental wheeling rate.

6.2. Shortage Premium. SDCWA will make an additional "shortage premium" payment over the base contract price when there are significant shortfalls in California water supplies. The payment is made when any one of these three conditions exist:

- (1) Northern California experiences a critical year condition;
- (2) The Secretary of the Interior declares a shortage in the Lower Colorado River Basin; or
- (3) SDCWA imposes mandatory rationing or conservation.

If SDCWA does not impose mandatory rationing or conservation, then SDCWA pays a shortage premium equal to 5% if Northern California experiences a critical year condition, 25% for a declared shortage in the Lower Colorado River Basin, or 30% if both conditions prevail. If SDCWA does impose mandatory rationing or conservation, then SDCWA pays the maximum of the above amount or the premium specified in the table below.

Authority Shortage	Premium
5% to <10%	10%
10% to <15%	15%
15% to <20%	30%
20% to <25%	40%

25% to <30%	50%
≥ 30%	100%

6.3. Price Redetermination. A price redetermination process will adjust the base contract price and the shortage premium to assure that the pricing provisions reflect the market value of IID water. The adjustments will be based on financial valuations of other transactions that meet a defined set of eligibility criteria. The market value of IID water will be estimated by adjusting the valuations of the other transactions to reflect differences between the IID/SDCWA transaction and the other transactions (such as supply reliability, water quality, and the time the other transactions were negotiated relative to the date of the price redetermination). The first price redetermination can be no sooner than 10 years after the start of the transfer of conserved water and provided that there are at least 10 transactions meeting the eligibility criteria and the volume in the California market exceeds 240,000 AFY. Thereafter, price redeterminations would generally occur no sooner than every 10 years; however, if a previous redetermination were based on fewer than 15 transactions, the next redetermination could be accelerated once information from more than 20 eligible transactions becomes available.

The pricing provisions of the Agreement are adjusted when a financial valuation of the existing pricing provisions is not consistent with the estimated market value of IID water under the redetermination process. The Agreement includes a defined quantitative criterion for making this determination. The new contract pricing provisions would be a weighted average of the existing price and the valuation of IID water estimated in the price redetermination. The weight given to the price redetermination grows with the scale of transactions in the California water market.

6.4. Early Transfer Water Price. The price for the Early Transfer Water is \$125 per AF in 1999 Dollars, to be adjusted for inflation, without reduction or adjustment for wheeling costs. As additional consideration, SDCWA will reimburse CVWD for certain environmental mitigation costs payable by CVWD in connection with its acquisition of water conserved by IID pursuant to the QSA.

7. Shortage Sharing.

IID and SDCWA will share pro rata any reductions in water available to IID under its Priority 3 right to Colorado River water when the Secretary of the Interior declares a shortage in the Lower Colorado River Basin. When the amount of water in usable storage in Lake Mead is less than 15 million AF and the unregulated inflow into Lake Powell is forecasted to be less than 8.8 million AF, the parties will also meet and confer to attempt to negotiate a supplemental water transfer agreement in anticipation of a shortage on the Colorado River of sufficient magnitude to reduce the availability of water to IID under its senior water rights.

Summary of Proposed Quantification Settlement Agreement

**SUMMARY OF
PROPOSED QUANTIFICATION SETTLEMENT AGREEMENT
[Revised as of 12/19/01; based upon Draft dated 6/6/01]**

The following generally summarizes the purpose and intent of the Quantification Settlement Agreement (QSA) among Imperial Irrigation District (IID), Coachella Valley Water District (CVWD), and Metropolitan Water District of Southern California (MWD) (collectively, the Parties), and describes those actions contemplated by the QSA and a number of related agreements.

1. Purpose and Intent. The QSA is intended (1) to consensually settle longstanding disputes regarding the priority, use and transfer of Colorado River water among the Parties, (2) to establish by agreement the terms for the further distribution of Colorado River water among the Parties for up to 75 years based upon agreed water budgets, (3) to facilitate agreements and actions which will enhance the certainty and reliability of Colorado River water supplies available to the Parties and assist the Parties in meeting their water demands within California's apportionment of Colorado River water by identifying the terms, conditions and incentives for the conservation and transfer of Colorado River water within California. IID seeks to settle disputes with CVWD and MWD and to use proceeds from the acquisition of Conserved Water (as defined in the QSA) to improve the reliability, efficiency and management of its Colorado River water supply. CVWD seeks to settle disputes with IID and MWD and to acquire Conserved Water for agricultural uses to accommodate anticipated reductions in groundwater extraction. MWD seeks to settle disputes with IID and CVWD and to ensure the reliability of its Colorado River supplies.

2. Term. The QSA must become effective on or before December 31, 2002, and will terminate upon the earlier of (1) a non-consensual termination of the 1998 IID/SDCWA Transfer Agreement or (2) December 31 of year 75 of the QSA.

3. Related Agreements. The QSA provides for a number of agreements, activities and transactions. The QSA anticipates certain related agreements (Related Agreements) which will implement components of the QSA. The Related Agreements include:

- (1) The Acquisition Agreements, which document various water transfers including the 1998 IID/SDCWA Transfer Agreement, as amended, the IID/CVWD Acquisition Agreement, the IID/MWD Acquisition Agreement, the CVWD Acquisition Agreement, and the MWD/CVWD Transfer and Exchange Agreement;
- (2) The 1988 IID/MWD Agreement;
- (3) The 1989 IID/MWD/CVWD/PVID Approval Agreement;
- (4) The 1989 CVWD/MWD Supplemental Agreement;

(5) The Allocation Agreement (for allocation of the Conserved Water resulting from lining of the All-American Canal (AAC Lining Project) and the lining of the Coachella Canal (CC Lining Project);

(6) The Implementation Agreement (the agreement among IID, CVWD, MWD, SDCWA and the Secretary of the Interior (Secretary) containing the terms of agreement by the Secretary to honor the terms of the QSA and the Related Agreements);

(7) The Environmental Cost Sharing Agreement; and

(8) The Protest Dismissal Agreement, relating to the State Water Resources Control Board (SWRCB) proceeding.

The key components of the QSA and Related Agreements are described in succeeding sections.

4. Water Budgets. Currently, IID, CVWD and PVID (each of which serves agricultural water users) collectively have the right to consumptively use 3.85 million acre-feet per year (MAFY) of Colorado River water under Priorities 1, 2 and 3 of the priority system which applies to California holders of Colorado River water rights; however, there are no separate individual limits and CVWD's entitlement is subordinate to IID's. The QSA establishes water budgets that will govern Consumptive Use (as defined in the QSA) of Colorado River water by the Parties during the term of the QSA, including a quantified division of Priority 3a.

The QSA defines "Consumptive Use" as the diversion of water from the main stream of the Colorado River, including water drawn from the main stream by underground pumping, net of measured and unmeasured return flows. The QSA defines "Conserved Water" as water made available for acquisition under the QSA and the Related Agreements attributable to (1) temporary land fallowing or crop rotation for up to the term of the QSA, if an allowed use is for irrigation, or (2) projects or programs that enable the use of less water to accomplish the same purpose or purposes of allowed use, subject in both cases to further restrictions.

The net effect of the QSA water budgets is to individually cap IID's and CVWD's Priority 3a rights during the QSA term to a total of 3.430 MAFY, and to specify quantities and priorities to Priority 6 water among MWD, IID and CVWD. All the Parties will forbear enough Consumptive Use from their respective Priorities to permit the Secretary to satisfy the water rights of holders of Indian reserved rights and miscellaneous present perfected rights.

4.1. IID's Priority 3a Cap. IID's Consumptive Use entitlement under its share of Priority 3a will be capped at 3.1 MAFY at Imperial Dam, less (1) the Conserved Water made available by IID for use by others under the QSA, and (2) the water made available by IID for use by Indian reserved rights and by individual holders of miscellaneous present perfected rights, to the extent charged to Priority 3a (see Section 4.4 below), and plus any Conserved Water made available to IID as a result of the AAC Lining Project and the CC Lining Project (see Section 6.1 below). The cap will be subject to adjustment as permitted under the Inadvertent Overrun Program (IOP). Any Colorado River water acquired from any party pursuant to a transaction permitted under the QSA (see Section 6.2 below) will be in addition to this cap.

4.2. CVWD's Priority 3a Cap. CVWD's Consumptive Use entitlement under its share of Priority 3a will be capped at 330 thousand acre-feet per year (KAFY) at Imperial Dam, less (1) Conserved Water made available from the CC Lining Project and (2) the water made available by CVWD for use by Indian reserved rights and by individual holders of miscellaneous present perfected rights, to the extent charged to Priority 3a. This cap will be subject to adjustment as permitted under the IOP. Any Colorado River water acquired from any party pursuant to a transaction contemplated or permitted by the QSA will be in addition to this cap.

4.3. MWD's Priority 4 and 5 Cap. MWD's Consumptive Use entitlements under Priorities 4 and 5 will be capped by the QSA at 550 KAFY and 662 KAFY, respectively, at Lake Havasu, less any water made available for use by Indian reserved rights and individual holders of miscellaneous present perfected rights, to the extent charged to Priority 4 or 5. The cap will be subject to adjustment as permitted under the IOP. Water made available by MWD to CVWD in any year pursuant to the QSA can be charged, at MWD's option, to any water available to MWD in that year. Any Colorado River water acquired from any party pursuant to a transaction contemplated or permitted by the QSA will be in addition to this cap.

4.4. Indian Reserved Rights and Miscellaneous Present Perfected Rights. IID and CVWD shall forbear Consumptive Use, up to a maximum of 11.5 KAFY and 3 KAFY, respectively, when necessary, in conjunction with the IOP, to permit the Secretary to make water available for Consumptive Use to holders of Indian reserved rights and miscellaneous present perfected Colorado River water rights in the aggregate amount sufficient to satisfy such rights. The obligation of IID to forbear use of water for this purpose may be charged, at IID's option, to its rights under Priorities 6a, 7 or 3a, as available. The obligation of CVWD to forbear use of water for this purpose may be charged, at CVWD's option, to its rights under Priorities 6, 7 or 3, as available. In the event that it is not necessary in any year for IID and CVWD to collectively forbear a total of 14.5 KAF for this purpose, then a credit equal to the difference between 14.5 KAF and the amount of actual necessary forbearance shall be shared 75 percent to IID and 25 percent to CVWD.

MWD shall forbear Consumptive Use, when necessary, in an amount in excess of the 14.5 KAFY forborne by IID and CVWD, collectively, in conjunction with the IOP, in the aggregate amount necessary to permit the Secretary to make water available for Consumptive Use to satisfy the rights of holders of Indian reserved rights and miscellaneous present perfected rights. MWD's obligation to forbear Consumptive Use for this purpose shall be charged at MWD's option to any Priority pursuant to which MWD has water available.

4.5. IID and CVWD Priority 6 Forbearance and Priority 7 Use. IID and CVWD agree to forbear Consumptive Use under Priority 6a sufficient to enable IID, CVWD and MWD to consumptively use Priority 6a water as it may be available in accordance with the following order of use, except as provided in the Interim Surplus Guidelines adopted by the Bureau of Reclamation:

- (1) 38 KAFY to MWD;
- (2) 63 KAFY to IID;

- (3) 119 KAFY to CVWD; and
- (4) Any balance of Priority 6a and 7 water available in accordance with the priorities identified in IID's, CVWD's and MWD's contracts with the Secretary for delivery of Colorado River water.

If IID, CVWD or MWD does not Consumptively Use all or any of the Priority 6a or 7 water available to it under the above priority schedule, any unused volume will be available in the above order to meet the next lower order Consumptive Use needs.

4.6. MWD's Responsibility for Overruns in Priorities 1, 2 and 3. The historical average annual Consumptive Use of Priorities 1, 2, and 3b is 420 KAFY. If the actual total Consumptive Use of Priorities 1, 2, and 3b exceeds 3.85 MAFY and actual total Consumptive Use of Priorities 1, 2 and 3b exceeds 420 KAFY, MWD shall repay the overrun of Priorities 1, 2 and 3b, in conjunction with the IOP. To the extent that the actual total Consumptive Use of Priorities 1, 2 and 3b is less than 420 KAFY, MWD shall have the exclusive right to Consumptively Use such unused water.

5. Acquisition of Water By the Parties. The QSA and the Related Agreements state the terms of a number of approved water transfers among the Parties to the QSA (IID, MWD and CVWD) and the San Diego County Water Authority (SDCWA).

5.1. Transfer Terms. The transfers and the applicable governing agreements are:

- (1) The transfer of 130 KAFY to 200 KAFY of Conserved Water from IID to SDCWA, governed by the 1998 IID/SDCWA Transfer Agreement, as amended.
- (2) The transfer of up to 100 KAFY of Conserved Water from IID to CVWD, governed by the IID/CVWD Acquisition Agreement.
- (3) The transfer of up to 100 KAFY of Conserved Water from IID to MWD (only to the extent that CVWD does not exercise its right to the 100 KAFY as described in item 2 above), governed by the IID/MWD Acquisition Agreement.
- (4) The acquisition of up to 50 KAFY of water by CVWD from MWD after IID's obligation to provide 50 KAFY of Conserved Water to CVWD expires after year 45 of the QSA term.
- (5) The transfer of 35 KAFY of MWD's State Water Project (SWP) water in exchange for a portion of CVWD's Colorado River water supplies, governed by the CVWD/MWD Acquisition Agreement and the MWD/CVWD 35,000 AF Exchange Agreement.

These transfers will help California stay within its 4.4 MAFY normal-year allocation of Colorado River water by conserving water currently being used for agricultural uses and transferring it to more urban use.

5.2. Pricing for Conserved Water

(1) Pricing for Conserved Water for the IID/SDCWA transfer is summarized in the Summary of the IID/SDCWA Transfer Agreement in Appendix A.

(2) Pricing for Conserved Water Under the IID/CVWD Acquisition Agreement: The price per AF of Conserved Water is \$50 in 1999 Dollars for the First 50 KAFY \$125 in 1999 Dollars for the Second 50 KAFY. CVWD is obligated to reimburse IID for certain environmental costs, but such reimbursement does not constitute revenue for IID.

(3) Pricing for Conserved Water Under the IID/MWD Acquisition Agreement: In the event that CVWD elects not to acquire some or all of the Conserved Water allowed under the IID/CVWD Acquisition Agreement, MWD has a right of first refusal to acquire that Conserved Water. The price per AF for MWD is \$125 in 1999 Dollars for all such Conserved Water. MWD must reimburse IID for any environmental costs associated with such a transfer. Such reimbursement does not constitute revenue for IID.

6. Other Provisions.

6.1. All-American Canal and Coachella Canal Water for San Luis Rey Indian Water Rights Settlement Act Purposes. The lining of the All-American Canal (AAC Lining Project) will produce 67.7 KAFY of Conserved Water, and the lining of the Coachella Canal (CC Lining Project) will produce 26 KAFY of Conserved Water. After the effective date of the QSA, up to 16 KAFY of Conserved Water attributable to the AAC Lining Project and the CC Lining Project will be made available to the Secretary to facilitate implementation of the San Luis Rey Indian Water Rights Settlement Act. The volume available to the Secretary from each canal lining project will be in proportion to its percentage of the total water conserved, 11.5 KAFY from the AAC Lining Project and 4.5 KAFY from the CC Lining Project. The remaining Conserved Water will be made available to MWD and, during surplus years, to IID. As the Conserved Water to be made available by the AAC Lining Project and the CC Lining Project is produced, it will be made available 83 percent to MWD (or IID) and 17 percent to the Secretary. For decree accounting purposes, Consumptive Use of this Conserved Water will be assigned to the Secretary and not charged to IID or CVWD, but will be deducted from IID's Consumptive Use cap and CVWD's Consumptive Use cap in proportion to the Conserved Water made available from the AAC Lining Project and the CC Lining Project, respectively.

6.2. Acquisition of Colorado River Water. During the term of the QSA, IID, CVWD, and MWD may acquire Colorado River water from persons other than from each other, without objection by any of the three agencies, so long as such acquisition is not inconsistent with the QSA and Related Agreements and does not materially reduce the water available to the Parties.

6.3. CVWD Utilization of Water. Except as provided in the IID/CVWD Acquisition Agreement, CVWD will not utilize its water budget to facilitate any water use

outside of Improvement District No. 1 other than for direct and in-lieu recharge, and shall use its best efforts to utilize its water budget to address the groundwater overdraft problem in Improvement District No. 1, and to implement a program designed to help achieve a safe yield within Improvement District No. 1 by approximately year 31 of the QSA term. IID and MWD will not object to the utilization of Colorado River water in the Coachella Valley, but outside Improvement District No. 1, in order to maximize the effectiveness of Improvement District No. 1's water use and recharge programs. CVWD will make no claim as a matter of right to any additional Colorado River water in Priorities 3 or 6.

6.4. CVWD Groundwater Storage of IID Water. Subject to the physical availability of storage in the Coachella Valley after accounting for the storage to be utilized by CVWD for the MWD/CVWD conjunctive use program, if implemented, CVWD will provide groundwater storage for IID's use in accordance with the IID/CVWD Acquisition Agreement.

6.5. Public Awareness Program. IID, CVWD, and MWD will each implement and maintain a water conservation public awareness program.

6.6. Shortage and Sharing of Reduced Water Availability. If for any reason there is less than 3.85 MAF available to Priorities 1, 2 and 3 in any year, the QSA will not terminate and shortages will be shared as set forth in the Acquisition Agreements and the Allocation Agreement.

6.7. MWD Mitigation of Certain Effects of Interim Surplus Guidelines. If application of the Interim Surplus Guidelines reduces Priority 3a Consumptive Use by IID and CVWD, MWD shall assume IID's and CVWD's responsibility for any payback of overruns as a result of such reduction, but limited by the aggregate amount of surplus water allocated to and Consumptively Used by MWD under Full Domestic Surplus and/or Partial Domestic Surplus conditions, as determined by the Secretary under the Interim Surplus Guidelines.

7. Conditions to the Parties' QSA Obligations. IID, MWD, and CVWD's obligations under the QSA are subject to the satisfaction or waiver of a number of conditions on or before December 31, 2002, including those set forth below.

7.1. General Conditions.

(1) **Environmental Review.** The Parties shall have completed all environmental review and assessment required under the California Environmental Quality Act (CEQA), the National Environmental Policy Act (NEPA), and applicable federal, state and agency regulations implementing the same, to the extent required to authorize implementation of the activities contemplated by the QSA.

(2) **Resource Approvals.** All permits, approvals and authorizations pursuant to the federal Endangered Species Act (ESA), the California Endangered Species Act (CESA), any other federal or state resource protection laws, and any regulations implementing the same, shall have been finalized to the extent required to authorize IID's conservation and transfer activities and Consumptive Use cap, including a habitat conservation plan covering IID's conservation and water use activities and impacts on the Salton Sea, and "No Surprises"

assurances pursuant to ESA Section 10(a) shall have been provided for IID and CVWD in connection with the IID/CVWD Acquisition Agreement.

(3) **Approval of Environmental Requirements.** Each Party shall have approved and accepted the terms and conditions and mitigation measures of the environmental review processes and the resource approvals, to the extent such Party is responsible, in whole or in part, for compliance, performance or payment of the costs thereof.

(4) **Inadvertent Overrun and Payback Program.** Reclamation shall have adopted on or before December 31, 2002, standards and procedures for an IOP to be implemented during the first 30 years of the QSA term, which Program is in all material respects acceptable to the Parties.

(5) **Interim Surplus Guidelines.** Interim Surplus Guidelines, implemented pursuant to the Secretary's Record of Decision dated January 16, 2001, shall be in full force and effect.

(6) **PVID Waiver.** PVID shall have agreed for the term of the QSA: (a) to waive any call rights on Conserved Water from the AAC Lining Project and the CC Lining Project, (b) to limit use on the PVID Mesa, (c) to forego any rights to Priority 6b water, and (d) to the amendment to the 1989 Approved Agreement.

(7) **Execution of the Acquisition Agreements.** The Acquisition Agreements shall have been executed for delivery as of the Closing Date, which shall occur no later than December 31, 2000.

(8) **SWRCB Approval.** The SWRCB shall have entered a final order of approval of the Petition for Change relating to the 1998 IID/SDCWA Transfer Agreement and the IID/CVWD Acquisition Agreement upon terms and conditions set forth in the QSA.

(9) **Other Agreements in Effect.** Certain Agreements shall be in effect, including the 1998 IID/SDCWA Transfer Agreement, the Environmental Cost Sharing Agreement among the Parties, and the Implementation Agreement to be executed by the Secretary.

7.2. Particular Conditions to IID's Obligations. IID shall have determined that its responsibility for environmental process and mitigation costs shall not exceed \$15,000,000 in 1998 Dollars.

7.3. Particular Conditions to CVWD's Obligations. The Amendment to the contract between the USA and CVWD for replacing a portion of the Coachella Canal shall have been executed by the USA.

7.4. Particular Conditions to MWD's Obligations.

(1) **Decree Accounting.** Reclamation shall have agreed with the Parties to develop a process for establishing a statistically significant trend test for increases in Priorities 1, 2 and 3b.

(2) **Waiver.** SDCWA shall have waived any rights under the 1998 IID/SDCWA Transfer Agreement with respect to Conserved Water that may be acquired by MWD pursuant to the IID/MWD Acquisition Agreement, in conjunction with MWD's agreement that, should IID transfer less than 200 KAFY to SDCWA, but later make available additional Conserved Water for transfer to SDCWA, MWD would exchange such additional amounts up to a total of 200 KAFY under the terms of the 1998 Agreement between MWD and SDCWA for the Exchange of Water.

(3) **Environmental Costs.** MWD shall have determined that its responsibility for environmental process and mitigation costs shall not exceed \$5,000,000 in 2001 Dollars.